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Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo

I. Introduction

1. The present report is submitted pursuant to Security Council resolution 1244 (1999) of 10 June 1999, by which the Council decided to establish the United Nations Interim Administration Mission in Kosovo (UNMIK) and requested the Secretary-General to report at regular intervals on the implementation of the mandate. The current report covers the activities of UNMIK and developments in Kosovo, Federal Republic of Yugoslavia, since my report of 9 October 2002 (S/2002/1126). Matters reported to the Security Council at its meeting on 6 November 2002 and by the Council's Mission to Kosovo and Belgrade, Federal Republic of Yugoslavia, are referred to, as appropriate (see S/PV.4643 and S/2002/1376). For ease of reference, the outline below follows the headings contained in the UNMIK chart attached as an annex to the present report.

II. Functioning democratic institutions

A. Provisional Institutions of Self-Government

2. Kosovo's Provisional Institutions of Self-Government, the Assembly and the Government, have been in existence for about one year. During this time, the Government has forwarded 14 laws to the Assembly, six of which have been endorsed and sent to my Special Representative for promulgation in line with the Constitutional Framework on Provisional Self-Government in Kosovo (see UNMIK regulation 2001/9 of 15 May 2001). Of these six, four were signed into law and two sent back to the Assembly for further consideration, as they did not adhere to the division of responsibilities laid down in the Constitutional Framework and did not respect the rights of communities enshrined in that document.

3. The transfer of responsibilities from UNMIK to the Provisional Institutions over the past year has taken two forms: first the transfer of political authority to take relevant decisions, which was immediate, and secondly the transfer of executive functions from international staff to Kosovo civil servants, which was incremental. Progress in assuming executive functions has varied between the Ministries, depending on their organizational structure and ability to recruit and retain qualified staff. Appointment of senior staff was delayed, inter alia, owing to difficulties in

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identifying suitable candidates willing to accept a comparatively low salary and the politicization of senior civil servant posts. This, in turn, delayed the appointment of other civil service officers. Nearly 50 per cent of senior Kosovo civil servant posts remained unfilled, requiring international staff to remain in line functions in some Ministries. International staff continued to perform the functions of Permanent Secretary in two Ministries. By the beginning of 2003, the remaining eight Permanent Secretaries had been recruited, including one woman. By the end of the year, the overall vacancy rate was 14 per cent and Kosovo civil servants in most Ministries were increasingly taking the initiative in solving day-to-day problems, as the reliance on international staff diminished.

4. Efforts continued to establish a multi-ethnic civil service, although obstacles remained. These included a limited pool of minority community candidates, security concerns, inter-ethnic tensions in the workplace and limitations on freedom of movement. Another constraining factor has been the open discouragement by certain Serbian Ministries and political parties (such as the Serb National Council) of minority community applications, in particular for health and education posts. Efforts continued to overcome the obstacles, for example, by the extension of bus service, which has had a positive impact on the willingness of members of minority communities to work in Pristina. Additional efforts included placing appropriate advertisements in minority media outlets and including members of minority communities in recruitment panels. At the end of October 2002, the Office of the Prime Minister presented its preliminary plan for the proportional representation of minority communities in the civil service to the Advisory Board on Communities.

5. At the beginning of 2003, the level of minority community representation in most of the central bodies averaged only less than 6 per cent. Minority community representation averaged approximately 10 per cent in the transferred Ministries of Education, Science and Technology; Agriculture, Forestry and Rural Development; Culture, Youth and Sports as well as the Kosovo Assembly Secretariat; and, in the reserved areas, in the Directorate of Administrative Affairs, the Office of Community Affairs, and the Directorate of Rural Affairs. In contrast, there were hardly any minority employees (less than 1 per cent) in the public utilities field (electricity, water, telecommunications). At the municipal level, the level of minority community employment in the civil service averaged 12 per cent. This was primarily attributable to employment within the municipal community offices, as a result of an UNMIK direction, rather than through employment in the municipal structures. The highest representation in municipal structures was in the Gnjilane region, where four out of five mixed municipalities reflected an acceptable level (12 per cent) of minority employment. The level of minority representation in other municipalities was considerably lower, particularly in the Pec region.

6. Overall, the Ministries succeeded in executing their budgetary allocations for 2002. At 489.1 million euros, the Kosovo consolidated budget for 2003, endorsed by the Assembly at the end of December, represents an increase of 19 per cent over the 2002 budget, 95 per cent of it derived from domestically generated revenue. Seventy-two per cent of the 2003 budget (€370 million) was allocated to responsibilities transferred to the Provisional Institutions of Self-Government (€342 million) and the municipalities (€28 million).

7. The lack of appropriate rules and procedures and non-adherence to existing rules has presented obstacles to the transfer of responsibilities, including rules of

executive business of the Government, office procedure for the Ministries, rules for delegation of financial and administrative powers for officers of the Ministries, pay rules and accounting guidelines. UNMIK has drafted rules for some of these areas to be used on a provisional basis and has encouraged the relevant Ministries to draft the rules that lie within their purview.

8. Government meetings and Assembly sessions towards the end of 2002 were characterized by an increasing desire to encroach on the powers reserved for the Special Representative, such as the power to set the budgetary parameters, rather than concentrating on the urgent matters over which these bodies have responsibility. On 15 January 2003, in the face of adverse public reaction to an increase in income tax, the Government issued a statement distancing itself from the tax increase, which it had previously agreed to in the Economic and Fiscal Council in mid-October. In its statement, the Government called for the postponement of the implementation of the relevant regulation (UNMIK regulation 2002/4) until the Law on Financial Management and Accountability is promulgated and recommended the continuation of 2002 taxation levels until that time. In an extraordinary session of the Economic and Fiscal Council on 24 January, the Government presented a revised scale of personal income tax rates. The revised scale, with which the World Bank and the International Monetary Fund (IMF) had indicated general agreement, was endorsed.

9. Despite a stated commitment by the Provisional Institutions, particularly the Government, to fulfilling the benchmarks, some Kosovo Albanian Cabinet members publicly distanced themselves from the benchmarks at the end of 2002, as noted in the report of the Security Council on its mission to Kosovo and Belgrade (S/2002/1376, para. 19). Some held that placing standards before status was ineffective and that both should be pursued simultaneously. Some maintained that some standards could not be achieved without defining the status of Kosovo. Others continued to support the standards before status policy, but asserted that many of the standards had already been achieved. Despite consultation on the benchmarks, there remains a reluctance to engage on the part of the Provisional Institutions. Several of the New Year messages of leading Kosovo Albanian politicians called for independence in 2003. The majority of Kosovo Serb leaders have endorsed the "standards before status" approach and have taken a firm stance that status should not be negotiated before the standards have been reached. However, in January 2003, the Serbian Prime Minister called for final status negotiations to begin this year.

10. By the beginning of 2003, it was also clear that there were renewed tensions among the Kosovo Albanian coalition partners, an uneasy alliance from the outset, specifically between the Democratic League of Kosovo (LDK) on the one hand and the Democratic Party of Kosovo (PDK) and the Alliance for the Future of Kosovo (AAK) on the other. The belief that recent violence, to which LDK members fell victim, was politically motivated has deepened the divisions between the main parties and exacerbated tensions that had previously seemed to subside.

11. Throughout 2002 the Assembly, with the assistance of the Institution-Building Pillar's Assembly Support Initiative, formed the rudimentary structures needed for a functioning parliament. Eighteen committees were formed. Assembly members visited other parliaments, including the European Parliament, and on 9 January 2003 the Assembly adopted its rules of procedure, which UNMIK is currently reviewing

to ensure that they are in accordance with the Constitutional Framework. It had become apparent that 18 committees for a 120 member Assembly is a cumbersome structure and that the work of the committees would benefit from technical expertise and public hearings. It is inherently difficult for the representatives of the smaller minority groups to participate adequately in the committee work, a fact which limits their participation in the legislative process in some areas.

12. There were continued instances of the Assembly overstepping its competences. On 8 November the Assembly adopted a resolution rejecting the inclusion of Kosovo in the preamble of the Constitutional Charter of the State Union of Serbia and Montenegro, which was viewed by the Kosovo Albanian majority as prejudging Kosovo's final status. In December, my Special Representative sent back to the Assembly the Law on External Trade Activity, which was in violation of the Constitutional Framework. Also in December, UNMIK headed off a draft resolution on independence prepared by AAK.

13. The Assembly continued to show reluctance to accommodate minority community demands, illustrated by the higher education bill, which my Special Representative sent back to the Assembly for further consideration (see S/2002/1126, para. 4). On 7 November, the Kosovo Serb Return Coalition (KP) walked out of the Assembly on grounds of perceived persistent discrimination by the majority, particularly the President of the Assembly. On 24 January, KP members voted overwhelmingly to return to the Assembly.

14. UNMIK initiated the formal monitoring of Assembly proceedings to ensure compliance with the Constitutional Framework and the Provisional Rules of Procedure, with particular emphasis on respect for the rights of communities, and to make recommendations for corrective action.

B. Establishing the authority of the United Nations Interim Administration Mission throughout Kosovo: Mitrovica

15. On 25 November, UNMIK established its administration in northern Mitrovica, thus extending its authority throughout the whole of Kosovo for the first time since its deployment in June 1999. The way for this was paved by the agreement of the authorities of the Federal Republic of Yugoslavia to discontinue the financing of parallel structures, including parallel security structures, and to support UNMIK in assuming control of the administrative functions and developing the Kosovo Police Service (KPS) in northern Mitrovica. There are still some institutions that continue to receive financing from Belgrade, especially in the health sector.

16. With this assumption of authority, UNMIK began to implement relevant provisions of the 7-point plan for Mitrovica that my Special Representative had outlined on 1 October 2002. By the beginning of 2003, KFOR and UNMIK Police were manning the bridge, instead of the so-called "bridge-watchers"; approximately 20 Kosovo Serb KPS officers were deployed in the northern Mitrovica region and are now patrolling the streets. On 5 December, six Kosovo Serb correctional officers graduated from the Kosovo Police Service School and were assigned to the Mitrovica detention centre. So far, 60 Kosovo Serbs have been recruited to work for the UNMIK administration, most of whom worked in the pre-conflict municipal administration. Fifty-seven of those recruited began work in January 2003. By 20 January, most Kosovo Serb teachers had signed UNMIK contracts, although, as yet,

no health workers have agreed to such contracts. The headquarters of the Kosovo Trust Agency (KTA) moved to northern Mitrovica; and nine quick-impact projects were initiated, including the installation of traffic lights and the refurbishment of schools.

17. Progress was also made regarding the rule of law, with the surrender of a Kosovo Serb leader on 9 October following an attempt by UNMIK Police to arrest him in August 2002 on suspicion of involvement in the injury to 22 UNMIK Special Police Unit officers during riots in Mitrovica in April. The charges against him were reduced in light of the evidence that had been collected, and he was subsequently released on bail. The trial of another Kosovo Serb, charged with instigating the April riots in Mitrovica, began on 22 November.

C. Municipal elections

18. Kosovo's second municipal elections were held on 26 October 2002 (see S/PV.4643). The ballot and the electoral campaign that preceded it were conducted in an orderly and calm fashion. The overall turnout of 54 per cent (58 per cent in Kosovo and 14 per cent in Serbia and Montenegro) was depressed by a low turnout among the Kosovo Serb community of around 20 per cent. The Kosovo Serbs voted predominantly in the five municipalities where they constitute a majority: Leposavic, Zvecan, Zubin Potok, Strpce and Novo Brdo. Participation elsewhere was minimal and there was a virtual boycott in northern Mitrovica city. The low turnout of Serbs was, in part, attributed to mixed signals from the authorities of the Federal Republic of Yugoslavia and of Serbia regarding participation, as well as doubts on the part of Kosovo Serbs regarding the benefits of participation in the political process. Kosovo Serb candidates won the majority in Leposavic, Zvecan and Zubin Potok, Strpce and Novo Brdo. The results showed that where Kosovo Serbs took part in large numbers, the Return Coalition lost out mainly to the Democratic Party of Serbia and to the Serb National Council Mitrovica. There were voices on the Kosovo Albanian side indicating that the lower turnout among the Kosovo Albanian community compared to the previous two elections reflected some dissatisfaction with local institutions and political leaders.

19. Almost all the new Municipal Assemblies were formed by the end of 2002. Some problems emerged in the mixed municipalities, which were won by the Kosovo Serbs, particularly in Novo Brdo, where physical and verbal assaults against senior Kosovo Serb members of the administration by Kosovo Albanians at the beginning of 2003 triggered a walkout of all Kosovo Serb municipal employees for several days. In some municipalities, where the Kosovo Serbs gained only one seat, there has also been reluctance on the part of that individual to take part in the Assembly.

20. Minority communities hold the balance of power in several assemblies. In Prizren, for example, the LDK allied itself with the Kosovo Turkish community, which gained four seats. The Municipal Assemblies no longer include appointed members, only elected ones. As a result, there are now fewer minority community members in the Municipal Assemblies. In some areas, where minority communities are small, or minority community turnout was low, some communities made practical arrangements to continue their participation in municipal life to the extent possible. In Kamenica, for example, the 11 former Kosovo Serb Municipal

Assembly members formed a team to continue participation in the Municipal Assembly's standing committees. Similarly, the Roma community in Kamenica agreed that it would nominate one person for the committees and the Municipal Working Group on Return. Of the mandatory committees required under Regulation No. 2000/45 on the Self-Government of Municipalities, only 15 Community Committees and 10 Mediation Committees have been established so far, although few of these are fully functioning. In order to safeguard minority communities, the UNMIK regulation on the 2003 Kosovo Consolidated Budget introduced both protective and corrective measures, particularly with regard to fair-share financing for minority communities.

21. As a result of gender requirements in the electoral legislation and the system of closed lists, 28.5 per cent of the new Municipal Assemblies are made up of women representatives. This is a substantial improvement on the 8 per cent achieved at the 2000 elections.

22. To pave the way for an eventual handover to local institutions, there was an increased transfer of electoral responsibilities to the Municipal Election Commissions, which played a leading organizational role. Some 12,000 domestic observers were also accredited for the vote. Reductions were made in international supervisory involvement, with the blanket election supervision of the last two years replaced by a ratio of one international polling station supervisor to three polling stations. In addition, earlier in 2002, an Election Working Group began deliberations to determine the future electoral formula and regulations.

23. On 18 December 2002, the responsibility for financial administration was transferred to 24 (out of 30) municipalities. These municipalities were certified by independent auditors as having adequate budgetary and financial management systems in place with the requisite financial procedures and controls. UNMIK monitors the certified municipalities to ensure that they comply with their obligations under UNMIK regulation 2000/45, including the protection of the rights and legitimate interests of all communities. Municipalities that fail to meet these obligations will face measures, including the holding back of resources.

D. Decentralization

24. Following an initial announcement in October 2002, my Special Representative met with political leaders in November to discuss the concept of decentralization. In December, the Institution-Building Pillar co-organized the first in a series of informal decentralization conferences that brought together local government experts and practitioners from Kosovo, Austria and Slovenia. Also in December, experts from the Council of Europe held preliminary discussions with UNMIK and local leaders at both the central and municipal levels, initiating a process to build consensus from the grassroots on a decentralization strategy.

III. Rule of law

A. Security situation

25. Crime statistics reflected an overall decline in serious crime in Kosovo throughout 2002 as shown below.

Offence	*2001*	*2002*
Murder	136	65
Kidnapping	153	75
Grievous assault	274	454
Rape and attempted rape	124	105
Robbery	483	398
Arson	209	259

(Crime statistics are for 1 January to 30 November 2002.)

However, there were several cases of violence with political overtones. In December 2002 and January 2003 there were three car-bombings in the space of four weeks. On 4 January a Kosovo Albanian was murdered. The victim was close to the LDK and a former member of the so-called "Armed Forces of the Republic of Kosovo", who had also been a witness for the prosecution in a high-profile trial of former members of the Kosovo Liberation Army (KLA). Two of his relatives were also killed in the incident, one of whom was the head of the LDK Youth Forum in Decani. Other murders included the shooting of the LDK President of the Municipal Assembly of Suva Reka on 27 October, the killing of a prominent lawyer and human rights activist involved in the issue of missing persons on 4 November, the killing of a former member of the Kosovo Liberation Army on 25 December and the attempted killing in mid-December of a Kosovo Albanian reportedly a witness for the prosecution in another high-profile case against former KLA members. On 9 January, the LDK organized a protest march against political violence in Pristina, attended by approximately 1,500 people. Demonstrations were also held in Pec and Prizren to protest the recent violence.

26. There were also several cases of violence against minority communities, particularly the Kosovo Serb community. This ranged from the stoning of Kosovo Serb internally displaced persons looking at a potential return site, to an attack on Kosovo Serb pensioners in Pec and the blowing up of two Orthodox churches. In the mixed region of Gnjilane there were several grenade attacks, including several against the property of a Kosovo Serb KPS officer and the murder of a Kosovo Serb shepherd in Crnica.

27. In response to these incidents, funds from the Kosovo consolidated budget were allocated to pay for the repair to the damaged Orthodox churches; curfews were imposed in problem areas and two Kosovo Albanians were arrested for the murder of the shepherd. Arrests were also made in the stoning incident. The violence against the Kosovo Serb community was widely condemned by the international community, while reaction from the Kosovo leadership tended to be more muted, with the exception of the Prime Minister and municipal officials in Gnjilane region, who spoke out clearly against ethnically motivated incidents.

B. Well-functioning and sustainable police system

28. Of the more than 5,200 officers in the Kosovo Police Service (KPS) almost 15 per cent are from minority communities, 9 per cent of whom are Kosovo Serbs. Approximately 17 per cent of KPS officers are women. Work continued to build up the ranks and train managers in the KPS. On 22 November, 15 more KPS officers graduated from the first-line management course, bringing the total to 463. Together with UNMIK Police, the KPS gradually began to assume responsibility for some law and order activities previously carried out by KFOR. An important development was the introduction of KPS officers into the northern part of Mitrovica (see para. 15 above). A further development was the handover in mid-November of the first two police stations, Gracanica (Pristina region) and Kacanik (Gnjilane region), to KPS control.

C. Well-functioning local justice system

29. Progress was made in recruiting members of minority communities to the Kosovo judiciary. On 11 December, after following the appropriate procedures, which had been delayed by the reluctance of the Assembly to endorse the candidates, my Special Representative appointed 42 additional judges and prosecutors, 21 of whom were Kosovo Serbs, 19 Kosovo Albanians, one Bosniac and one Gorani. This represents an improvement compared to the situation in March 2002, when out of 339 judges and prosecutors working in the Kosovo courts, only four were Kosovo Serbs, two Roma, nine Bosniacs and seven Turks. Thirteen of the new Kosovo Serbs appointed have been sworn in. The remaining eight have hesitated, due to security concerns and the level of salary. These new judicial appointments bring the total of the Kosovo judiciary to 373, including 16 Kosovo Serbs and 17 from other minority communities. The local judiciary handles 90 per cent of all criminal cases and all civil cases. The new appointments will receive training on the applicable law by the Kosovo Judicial Institute, established by the Institution-Building Pillar.

D. Penitentiary system

30. At present there are 1,202 local Kosovo correctional staff officers, of whom 18 per cent are female and 12 per cent are from minority communities. The targeted total is 1,688. Progress was made in developing the penal system in line with modern European standards. The Conditional Release Commission was established on 1 October. By the end of 2002 the Commission has considered 20 cases and granted conditional release to 16.

E. Organized crime, terrorism, related offences and war crimes

31. Combating organized crime continued to be a high priority. Areas for action include building on the Declaration on Cigarette Smuggling from the regional conference in Pristina in May 2002, seeking the establishment of a regional witness protection programme and seeking greater cooperation between UNMIK Police and customs and neighbouring police and customs services. Progress was made on this

last point, with UNMIK concluding a police cooperation agreement with Albania and beginning discussions on a similar agreement with the authorities of Bosnia and Herzegovina. On 20 December, UNMIK signed a memorandum of understanding with Interpol, establishing a framework for information exchange in the field of crime prevention and criminal justice.

32. In 2002, the Police Trafficking and Prostitution Investigation Unit conducted more than 350 raids on premises throughout Kosovo, closed down 61 premises for engaging in trafficking-related activities and filed 92 charges for trafficking offences. The Financial Investigation Unit began operations on 21 January 2003.

33. Following arrests earlier in the year (see S/2002/1126, para. 19), the first indictment was made on war crimes charges against former members of the Kosovo Liberation Army (KLA). On 19 November an international prosecutor indicted four Kosovo Albanians on charges of war crimes. On 17 December, five other former members of the KLA were convicted on charges of unlawful detention and inflicting grievous bodily harm against Kosovo Albanians in the Pec region in 1999 and sentenced to prison terms ranging from three to five years. One was convicted of murder and sentenced to 15 years. On 11 November, an international prosecutor indicted two Kosovo Albanians, accused of procuring significant amounts of weapons in pursuit of insurrection in the northern part of the former Yugoslav Republic of Macedonia, on charges of terrorism. By the end of 2002 there were 29 international judges and prosecutors dealing with sensitive cases, such as those related to terrorism, war crimes and organized crime.

IV. Freedom of movement

34. KFOR continued the process of "unfixing" its static checkpoints. By the beginning of 2003, KFOR had only 30 fixed checkpoints remaining throughout Kosovo, a reduction of 66 per cent since February 2002. KFOR assessed that the security situation had improved to the extent that the environment was safe enough for Kosovo Serbs to move around without escort. As a result, KFOR escorts were reduced by almost half since February 2002, leaving a total of 54 regular military escorts Kosovo-wide. This decision encountered some resistance on the part of the Kosovo Serbs, who kept their children away from school. This led to the temporary reinstatement of some escorts for schoolchildren. In some areas, KFOR's static guards were replaced with mobile patrols and escorts provided by UNMIK Police.

35. There was a discernible increase in the use of public transport by some minority communities, particularly the Ashkali and Egyptian communities. Kosovo Serbs largely relied on separate transport, either provided by the international community or through private resources. To date, no regular public transport service has been established between areas inhabited by the minority and majority ethnic communities, except for the bus that transports civil servants and a railway service from Lipljan to Serbia proper. Private transport increased between enclaves, but not in the direction of majority areas.

36. In order to increase freedom of movement for members of the Kosovo Serb community who owned vehicles with Serbian licence plates registered outside Kosovo, my Special Representative issued Administrative Direction 2002/6, which allows for the provision of Kosovo licence plates to Kosovo Serb motorists free of charge. So far, 1,231 Kosovo Serbs have applied. Outstanding impediments

remained the recognition of vehicle insurance purchased outside Kosovo in Serbia and delays in reaching an agreement on recognition of Kosovo licence plates in Serbia proper, as well as a protocol on vehicle insurance.

37. The introduction of ethnically mixed KPS patrols in some minority communities met with a positive reaction and will be increased. With the phased transfer of law and order responsibilities in certain areas from KFOR and UNMIK Police to the KPS, further confidence-building measures will be undertaken to decrease reliance on international security forces.

V. Returns and reintegration

38. Of an estimated 2,668 minority returns that took place in 2002, 35 per cent were Kosovo Serbs, 46 per cent Roma/Ashkalis/Egyptians, and 11 per cent Kosovo Albanians who returned to areas where they are a minority. There are no reliable figures of those who had left by the end of 2002, but it was estimated that, overall, there was a net inflow. Most returns took place to small villages that have traditionally been and remain mono-ethnic. The largest number of returns to mixed communities occurred in the Gnjilane municipality, where minority communities have more freedom of movement than in other municipalities and where minority community employment is higher than elsewhere. The demographic structure of the returnee population tended to be weighted towards the elderly. Few professionals returned.

39. At a donor coordination meeting on 5 November in Brussels, UNMIK introduced its 2003 Strategy for Sustainable Returns, a programme that emphasizes the need for a grass-roots approach and focuses on multisectoral projects that engage the entire community in the return effort. The strategy calls for €16.6 million in external assistance for up to 44 projects, as well as €7.5 million for a flexible fund to address spontaneous individual returns. Additional funds of €7.7 million are being sought to support displaced persons who returned during 2002 but who have not yet been assisted. On 1 November, UNMIK established the Task Force on Returns, comprising representatives of UNMIK, KFOR, the Provisional Institutions and the Office of the United Nations High Commissioner for Refugees (UNHCR), so as to ensure effective and consistent implementation of returns policies among key institutions, as well as to provide high-level support and oversight for the returns process.

40. Engagement by the Provisional Institutions at both the central and municipal levels in the returns process continued to grow, although symbolic support for returns has not been matched by actions to create conditions for returns and assist the implementation of returns projects. Minority community members continue to face the risk of ethnically motivated violence and harassment, although improvements in freedom of movement and in security conditions have contributed to enhanced opportunities for return in some areas. Returns projects have been implemented in each region of Kosovo, including Bica (Pec region), Zhupa Valley (Prizren region), Makres (Gnjilane region), Vucitrn (Mitrovica region) and Magura (Pristina region). Nevertheless, the environment for returns remains fragile and conditions for return vary widely from generally supportive to outwardly hostile in different areas of Kosovo.

41. Uncertainty about the fate of missing persons of all communities has long been an obstacle to reconciliation and remains the subject of continuing protests in both Pristina and Belgrade. Since the establishment of the Office on Missing Persons and Forensics in March 2002, progress has been made with respect to exhumations and identification of victims. The number of exhumations in 2002 increased ninefold, totalling 393 bodies and body parts, while identifications increased elevenfold. In 2002 the Office exhumed an estimated 85 per cent of previously known gravesites in Kosovo. Throughout 2002, the remains of nearly 100 people were identified through clothing exhibitions and DNA testing. At the end of November, eight bodies identified through traditional methods after a clothing exhibition were repatriated from Serbia, at the request of the families. The Office compiled a Consolidated List of Missing Persons by combining data from the International Committee of the Red Cross (ICRC) and other organizations. There are approximately 4,700 records in the Consolidated List and the process of matching data with the daily blood donors list of the International Committee on Missing Persons and ICRC tables has started.

VI. Economy

42. Kosovo's economy has improved, but long-term development and stability remain problematic. The estimated Gross Domestic Product (GDP) for 2002 was €1.99 billion, compared with €1.4 billion in 2000. This high rate of growth, a 14 per cent nominal, or 8 per cent real increase year-on-year, was largely attributable to a low post-conflict starting base, a significant inflow of foreign aid and remittances from the diaspora. Gross domestic product per capita is estimated at €1,028. Gross National Product (GNP), which includes workers' remittances from abroad and income from donor-related employment, is expected to amount to €2.648 billion this year. Gross national product per capita amounted to €1,200 in 2001, up 13 per cent from the year before, and is estimated to have grown by a further 7 per cent in 2002.

43. The Provisional Institutions and UNMIK have coordinated closely to identify the most expeditious manner to develop a legal framework for economic development. However, differences remained with regard to the interpretation of reserved and transferred powers in this area. Not all of the laws prepared by the Provisional Institutions were drafted with the proper internal and public consultations. As a result, some of the laws will likely require considerable revisions in the future.

44. Determining unemployment levels in Kosovo with an acceptable degree of precision remained difficult. The Ministry of Labour figure is just over 57 per cent. However, this does not take into account the hidden economy. Unemployment estimates for the minority communities are higher, at approximately 85 per cent.

45. The fourth donor meeting for Kosovo was held in November in Brussels, co-chaired by the World Bank and the European Commission. The Prime Minister and the Minister of Finance and Economy were included in UNMIK's delegation and took an active part in the proceedings. Donors discussed the management of a smooth and effective transfer of responsibilities to the Government and Kosovo's general macroeconomic outlook. Several participants raised the need for Kosovo to have access to loans from international financial institutions in light of declining funds from donors. Although the meeting was not a pledging conference, the need

for some €500 million in external assistance in the coming three-year period was highlighted and acknowledged by many donor representatives.

46. The foreign sector continues to play an important role in Kosovo's economy. Imports are extremely high: at €2.1 billion in 2001, they exceeded GDP and dwarfed exports of only €180 million. In 2002, exports were estimated to have risen only slightly to €201 million, while imports are expected to amount to €2.277 billion. Hence, Kosovo's projected 2002 trade deficit of €2.076 billion actually exceeds GDP by 5 per cent. The nature of Kosovo's imports, which show a marked predominance of processed goods over raw materials and equipment, highlights the lack of marketable locally manufactured products.

47. The Board of the Kosovo Trust Agency (KTA) has now met several times and progress continued towards the first wave of privatization in Kosovo. All publicly owned enterprises are currently undergoing an audit. Following a comprehensive information-gathering process, assessing the assets and liabilities of several hundred socially owned enterprises, and preparing dossiers for potential investors on the most sustainable firms, the Kosovo Trust Agency (KTA) approved the first wave of 25 firms to be sold as "flagship privatizations".

48. Kosovo's largest publicly owned enterprise, the Kosovo Electric Company (KEK), continued to experience significant problems. For the fourth winter in a row, Kosovo's inhabitants suffered daily power cuts. The continuing need for repair work to the damaged power plants following the lightning strike in July 2002 and the diminishing coal supply and a landslide at the Bardh coalmine in October complicated the situation. Progress was made in making the requisite repairs to some parts of the power plant affected by the lightning strike. KEK's finances also worsened towards the end of 2002. Funds for further repairs, spare parts and power imports are almost entirely spent, leaving KEK with very little reserve capacity should further problems arise. In an attempt to improve its finances, KEK introduced a stringent disconnection policy for non-payment of bills, which was supported by the Kosovo political leadership and UNMIK. While bill payment rates have considerably improved, this is unlikely to be enough to sustain KEK's current cost base in the medium term. On 15 January 2003, Kosovo Serbs in Caglavica (Pristina region) demonstrated against power restrictions and an unequal distribution of electricity to minority community areas, which leaves the inhabitants without electricity for up to 10 hours at a time.

49. The commercial banking sector developed well during the reporting period. In October, the one-hundredth bank branch was opened and by early December the Banking and Payments Authority (BPK) had licensed 117 commercial outlets, 4 of which operate in areas inhabited by minority communities. Two banks continue to operate in the northern part of Kosovo without BPK supervision or approval. Total deposits in the banking sector currently amount to some €403 million. This is thought to represent approximately one third of total savings held by the general public — a similar sum is thought to be held in cash outside the banking sector and some €500 million in banks outside of Kosovo. Kosovo-based commercial banks have outstanding loans of €82 million, just 20 per cent of total deposits, although these loans have developed quickly. Just 18 months ago, only €10 million had been issued in loans. Default rates remain low and the scale of loans continues to grow considerably.

VII. Property rights

50. The Housing and Property Directorate (HPD) currently has four offices in Kosovo, one in Serbia proper and one in Montenegro. It has established a legal framework based on Regulation 2000/60 and put in place rules of procedure to regularize property rights. This is a temporary framework, designed to be in use until such time that the local court system is fully developed and functioning. Under present funding arrangements, HPD is scheduled to complete its mandate by 2005, at which point further property claims are to be dealt with by the Kosovo court system. As a result of the restructuring of the Directorate following the donor conference of November 2002, the amount of funding anticipated for 2003 was secured.

51. To date, the HPD has received 23,137 claims, including 13,000 since March 2002. Of the total claims received thus far, 60 per cent have come from outside of Kosovo. Since March 2002, 1,425 claims have been resolved, 1,000 in the last two months of 2002 alone, and 1,982 abandoned properties have been placed under the administration of the HPD. Of these administered properties, 90 per cent have been temporarily reallocated for humanitarian cases. The process of loading all files on to a database is approximately 90 per cent complete. An average of 30 evictions have taken place each week. There has been a general acceptance of evictions to date, with no associated security incidents except for some threats against an HPD official. The deadline for the submission of property claims to the HPD has been extended to 1 June 2003.

VIII. Dialogue with Belgrade

52. Dialogue with the authorities of the Federal Republic of Yugoslavia and the Republic of Serbia continued, yielding several important results towards the end of 2002. The most notable was the extension of UNMIK's administration in northern Mitrovica. Another was the recruitment of Kosovo Serb judges and prosecutors to the Kosovo judiciary, which will contribute to the dismantling of the parallel court system in northern Kosovo. Two Kosovo Albanian prisoners were transferred to detention facilities in Kosovo, in line with UNMIK's agreement with the Federal Republic of Yugoslavia on the Transfer of Sentenced Prisoners signed in April 2002.

53. The dialogue remained difficult, nevertheless, owing to inherent complexities in the situation and political divisions in Belgrade reflected in issues related to Kosovo, as seen with the mixed messages in the run-up to the municipal elections. These difficulties also reflected back into the Kosovo Serb community in Kosovo. The Provisional Institutions participated in the High-Ranking Working Group in an observer capacity when it met in Pristina. Overall, Kosovo Albanian leaders remain reluctant to engage in direct talks with the authorities of the Federal Republic of Yugoslavia, even on practical issues.

IX. Kosovo Protection Corps

54. The Kosovo Protection Corps (KPC) reduced its active strength, leaving 3,048 full-time members (against a permitted strength of 3,052), with a reserve that is currently at 75 per cent of its permitted strength of 2,000. Substantial efforts have

been made in achieving organizational clarity by defining job functions, clearly defining roles and specifying tasks for members of the KPC. A disciplinary code is in place and a recruitment policy will soon be approved. The KPC has a financial system in place, however this must be strengthened to ensure complete transparency in monitoring financial operations of the organization. The rationalization of infrastructure and assets is also well under way, although there remain at least 22 sites of socially owned enterprises as well as other properties that must be transferred back to their rightful owners.

55. Within the KPC, seven units have been developed in the following areas: rapid response, search and rescue, explosive ordnance disposal, engineering capability, and 24 protection brigades. Units have all received initial training and minimal general equipment, and a number of members have participated in training provided overseas. During the last year, the KPC provided assistance in response to the earthquake in the Gnjilane region and the lightning strike at Kosovo's power supply station. Lessons learned from these two emergencies have been built into further training exercises focused on coordination and response.

56. Efforts increased to make the KPC multi-ethnic. Although there is a target minority community composition of 10 per cent, there are no appropriate guidelines for accomplishing this. So far, only one third of the required 10 per cent of minority members have been recruited, with only 1 per cent made up of Kosovo Serb members. To increase accessibility, KPC recruitment campaigns will target members of minority communities and the operations of the organization must function in all of Kosovo's official languages.

57. There are currently 57 major non-compliance cases outstanding, which is an increase of nearly 20 per cent in cases since last year. These cases are for offences against the KPC Disciplinary Code and range from criminal activity, to misuse of position, to repeated absence. The increase in the number and overall seriousness of these cases was mostly due to the arrests and prosecutions of KPC members involved in criminal activity.

58. The KPC was designed to become an inclusive civilian agency providing emergency services. While respected by many, albeit by no means all members of the Kosovo Albanian majority, the Kosovo Serb community views the KPC with scepticism. KPC leaders continued to make statements portraying themselves as the nucleus of the armed forces of a future independent Kosovo. This does not comply with the legal mandate of the KPC. In light of cumulative instances of the KPC moving away from the benchmarks in this manner, UNMIK and KFOR have redoubled efforts to deliver a strong, joint message that this is unacceptable and to exert concerted oversight and control over the KPC.

X. Support matters

59. During the period under review, UNMIK's Division of Administration continued to provide the logistical support services necessary for the Mission to fulfil its mandate. In addition, during October, support was provided on a cost reimbursement basis to the Institution-Building Pillar in the run-up to the municipal elections. In November, the Bell 212 helicopter was replaced by a fixed-wing aircraft, thereby generating cost savings for the Mission while continuing to provide the necessary support to the police. Planning is advanced, for security reasons, to

separate the Police data network from UNMIK's network. When this project is implemented, the Kosovo Police Service and UNMIK Police will share a common and secure domain while using the United Nations communications network as a carrier. Additional microwave systems have been introduced to improve communications in the Mission. The intention is to transfer all routine support costs for police stations to the Kosovo consolidated budget during 2003. UNMIK Police main and regional headquarters will continue to be supported from the UNMIK budget for the foreseeable future.

XI. Observations

60. Significant achievements were made towards the end of 2002, including Kosovo's second municipal elections and the beginning of the handover to local control of the electoral process, the extension of UNMIK's authority to northern Mitrovica and the appointment of judges and prosecutors from minority communities. These last two issues illustrate the benefits of constructive dialogue with the authorities of the Federal Republic of Yugoslavia. During a visit to Pristina last November, I encouraged the leadership of the Provisional Institutions to begin a direct dialogue with the authorities of the Federal Republic of Yugoslavia on issues of practical importance to both sides. It is hoped that Belgrade will do its part in promoting dialogue.

61. Kosovo is still a considerable way from reaching the individual benchmarks and targets set out in the benchmarks matrix. A year after the formation of the Provisional Institutions of Self-Government, much remains to be done to build effective, representative, transparent and accountable institutions with meaningful participation of minority community representatives in the civil service. Much energy has been spent challenging the authority of my Special Representative and seeking additional powers. It is important that the Kosovo leadership recognize that, in order to gain additional competencies, they first need solid accomplishments for the benefit of all communities in the areas for which they do have responsibility under the Constitutional Framework. The principle of "standards before status" stands. The Provisional Institutions, political leaders, civil servants, civil society and general population should recommit to the benchmarks and make them their own.

62. A functioning, representative Assembly is a prerequisite for progress. The decision of the Return Coalition to go back to the Assembly is welcomed. It is important that the Kosovo Serb community addresses its concerns through full participation in Kosovo's legitimate institutions. The introduction of formal monitoring of Assembly proceedings is a positive step. It is hoped that the majority Assembly members, in particular those in the Assembly Presidency, will do their part in creating a parliamentary climate that is conducive to cooperation and respect for the views of the representatives of all communities. Indeed this applies to all institutions at the central and municipal levels.

63. Fighting crime and promoting acceptance of the rule of law remain significant challenges. I am concerned at the violence among the Kosovo Albanian community as well as the persistent violence against the Kosovo Serb community. This is one area where the local institutions and their leaders can exert influence on the climate for the rule of law by condemning all violence and vocally supporting the efforts of the police and judiciary. I reminded the representatives of the Provisional

Institutions during my last visit to the region that the majority has a special responsibility to make the minority communities feel that Kosovo is their home too and that the laws apply equally to everyone. I also asked the minority community representatives to join in and work within the institutions in order to be able to gain the benefits that are being offered. As we move into 2003, it is clear that both the majority and minority communities must make renewed efforts to inject new momentum into improving inter-ethnic dialogue and promoting the reconciliation process. Courageous steps are now needed on all sides if the positive developments of 2002 are to be consolidated. In particular, I hope that, with the generous support of Member States, this year will see significant advances in returns.

64. Finally, I would like to express my gratitude to my Special Representative, Michael Steiner, and to the men and women of UNMIK for their hard work and dedication. I would also like to express my appreciation to our partners within UNMIK, the European Union and the Organization for Security and Cooperation in Europe, as well as KFOR, and to the organizations, agencies, contributors and donors for their substantial support in implementing Security Council resolution 1244 (1999).

Annex

Goals and benchmarks of the United Nations Interim Administration Mission in Kosovo

UNMIK	Goals	General prerequisites	Benchmarks	Action by local entities
Functioning democratic institutions[a]	. Democratic governance . Revenue collection and efficient delivery of public services . Minority political participation and access to public services and public employment consolidated . Full implementation of undertakings in government coalition agreement (28 Feb) . PISG authority throughout Kosovo	FULL COMPLIANCE WITH AND IMPLEMENTATION OF RESOLUTION 1244 (1999) AND THE CONSTITUTIONAL FRAMEWORK MULTI-ETHNICITY, TOLERANCE, SECURITY AND FAIRNESS UNDER NORMAL CONDITIONS, WITHOUT SPECIAL MEASURES	. Effective, representative and functioning institutions of government authority in all Kosovo . Promotion of civil society structures, human rights and full participation by women . Lead role by PISG in policy-setting . Transparency in the allocation of resources . Meaningful participation by minority civil servants in government . Responsible and professional media	. Accountability through focus on delivery of public services . Proportionate minority representation in government . PISG to work in both official languages . Align and develop legislation to EU and international standards . Participation by women in government
Rule of law (Police/Judiciary)	. Organized crime networks disrupted, financial crime checked, and end of extremist violence . Public respect for police and judiciary . Impartiality of judges and KPS, prosecution of all suspected criminals, and fair trial guaranteed to everyone . Sufficient minority representation		. Extremism not tolerated by mainstream . International judges and police enabled to take supportive function . Increased reliability of and prosecution of crime by Kosovo judiciary . Customs services and KPS participate in anti-organized crime strategy . KPS recognized as reliable partner internationally	. Sustained effort by PISG to promote values of rule of law . Holders of public office to abstain from extremist public statements . PISG budget support to promote higher education and entrance examinations in legal field
Freedom of movement	. All communities can circulate freely throughout Kosovo, including city centres, and use their language		. Unrestricted movement by minorities without reliance on military or police	. Policy and sustained action by PISG to promote FOM publicly . Unprompted condemnation by holders of public office of obstruction and violence
Returns and reintegration	. All Kosovo inhabitants have their right to remain, right to property and right to return respected throughout Kosovo		. Conditions for safe and sustainable returns and reintegration created . All IDPs and refugees to have necessary information for decisions on returns . Returns to urban areas to have started . Adequate allocation of budget resources by PISG for returns and reintegration	. Active advocacy by political and community leaders for returns and reintegration, hosting of go-and-see visits . Key Kosovo Albanian leaders to have participated in go-and-inform visits where IDPs live . Budget allocation by PISG for returns and reintegration
Economy	. Sound institutional and legal basis for a market economy . Balanced budget . Privatization of socially owned assets		. Minimum legal and regulatory framework to secure investment . Improved tax and revenue collection . Progress on privatization	. Support to establishment of solid economic framework . Active public support for privatization by holders of public office
Property rights	. All property, including residential property, land, enterprises and other socially owned assets, will have a clear and rightful owner		. Significant progress in repossession of properties	. Compliance and support of the Housing and Property Directorate adjudications . PISG and municipal support for evictions . Kosovo budget contribution to HPD
Dialogue with Belgrade	. Normal relations with Belgrade, and eventually with other neighbouring areas		. Practical issues addressed through direct contacts . Problems solved through dialogue and correspondence . Business relations restarted	. PISG participation in High-Ranking Working Group . Reciprocity in PISG visiting Belgrade and welcoming visitors to Pristina
Kosovo Protection Corps	. Contingent reduced to numbers commensurate with its mandate . Minority participation		. Appropriately reduced contingent . Unqualified compliance with KPC mandate . Relations established with all communities and proportionate minority participation	. Active endorsement by public office holders of reduced KPC numbers and participation of minorities

[a] PISG = Permanent Institutions of Self-Government; KPS = Kosovo Police Service; IDPs = internally displaced persons; KPC = Kosovo Protection Corps; EU = European Union; HPD = Housing and Property Directorate.

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